Fund Focus

FlexShares Ultra-Short Income Fund

SMOOTH SIMPLICITY

For investors seeking current income combined with minimal NAV variability

Investors need liquid assets for many reasons, such as providing an emergency cash reserve or offering a place to temporarily hold funds earmarked for short-term investment needs. Prior to the financial crisis of 2008, money market funds offered a stable source of liquidity that still generated acceptable returns. Since then, however, new restrictions have greatly reduced the yields on money market funds. As a result, investors interested in liquid assets that provide higher relative returns have had to look for alternatives in ultra-short-term fixed-income investment vehicles.

In this paper, we examine why alternatives to traditional money market funds may offer the potential for higher income generation, while still providing a measure of principal protection. We then explain how the FlexShares Ultra-Short Income Fund (RAVI) is designed to provide investors a source of liquidity for short-term investment funds with higher potential returns than available from money market funds.

UNDERSTANDING THE WORLD OF ULTRA-SHORT-TERM FIXED-INCOME INVESTING

Investors typically seek liquid assets to meet two main goals:

Preservation of liquidity, which requires absolute principal stability (e.g., an emergency fund)	Investing liquidity, which does not require absolute stability of principal (e.g., holding money generated from the sale of one investment before reallocating to another)

Historically, money market funds helped meet both goals by offering price stability, overnight access to cash and a decent return. Before the U.S. Securities and Exchange Commission (SEC) moved to restrict money market fund investments in the wake of the 2008 financial crisis, they could be invest in a wide variety of securities, including those with durations 13 months or longer. To improve investors' faith in money market funds following the 2008 crash, the SEC restricted the underlying investments in those funds to very-high-quality securities with a maximum duration of three months. As a result, yields on money market funds fell drastically.

Money market funds remain the best vehicle for preservation liquidity, because the safety of principal outweighs the need for competitive returns. Investors seeking investing liquidity, however, may be willing to trade some of that principal stability for higher returns. Ultra-short-term investment products that do not need to maintain a constant net asset value (NAV)[1] are not constrained by the rules that govern money market funds. This allows them to invest in a wider range of security types that offer a potential yield premium, such as short-term credit, asset-backed securities, floating-rate notes and mortgage-backed securities.

For investors seeking liquidity to meet short-term investing needs, products that are allowed to have a variable NAV may fill the gap between money market funds and short-term bond funds.

THE FLEXSHARES SOLUTION: AN ACTIVELY MANAGED ULTRA-SHORT-TERM FIXED-INCOME STRATEGY

FlexShares Ultra-Short Income Fund (RAVI) is an ETF that's designed to provide investment liquidity, minimum principle volatility, and the potential for higher returns.

Northern Trust Investments, Inc. (NTI), the investment adviser for FlexShares Funds, actively manages the fund, capitalizing on its deep expertise in corporate bonds and other fixed-income sectors. Because the fund is not constrained by the rules governing conventional money market funds, it invests in a wide range of securities with durations between three months and 1.5 years. These securities include:

Agency debt	Mortgage-backed/asset-backed securities	Corporate debt	Government debt	Cash

NTI manages the overall portfolio to maintain an average duration of between 0.25 years and one year, based on its outlook for interest rates. All the Fund's investments must be investment-grade at time of purchase, and the portfolio also includes constraints to avoid concentrations in asset-backed securities, single issuers, or debt based in emerging markets.

ATTEMPTING TO BALANCE THE NEED FOR HIGHER RETURNS AND MINIMAL PRINCIPAL VOLATILITY

In our view, the variety of fixed-income assets available to the NTI investment team provides flexibility to manage the FlexShares Ultra-Short Income Fund's (RAVI) duration and liquidity according to their outlook for interest rates and market conditions. Targeting durations above the three-month cap on money market funds, but below the 1.5-year minimum duration typically offered by short-term bond funds, may provide higher returns than money market funds while limiting the potential for principal volatility.

As a result, we believe the Fund provides investors a liquid vehicle for short-term funds without incurring the additional "cost" of holding cash in their portfolios in the form of low yields.

CONCLUSION

Reforms following the 2008 financial crisis constrained the type and duration of investments available to money market funds. As a result, investors seeking investment liquidity in their portfolios have had to look to other parts of the ultra-short-term fixed-income asset class.

We believe the FlexShares Ultra-Short Income Fund (RAVI) offers investors a vehicle with stronger return potential than money market funds, while retaining the liquidity necessary to hold funds for use in near-term investment decisions. Taking advantage of Northern Trust's expertise in the fixed-income markets, the Fund may fill a gap between money market funds and short-term bond funds.

FIND OUT MORE

The FlexShares approach to investing is, first and foremost, investor-centric and goal oriented. We pride ourselves on our commitment to developing products that are designed to meet real-world objectives for both institutional and individual investors. If you would like to discuss the attributes of any of the ETFs discussed in this report in greater depth or find out more about the index methodology behind them please don't hesitate to call us at 1-855-FlexETF (1-855-353-9383).

FOOTNOTES

1 Net asset value (NAV) represents the net value of an entity and is calculated as the total value of the entity's assets minus the total value of its liabilities. Most commonly used in the context of a mutual fund or an exchange-traded fund (ETF), the NAV represents the per share/unit price of the fund on a specific date or time.

IMPORTANT INFORMATION

Before investing, carefully consider the FlexShares investment objectives, risks, charges and expenses. This and other information is in the prospectus and a summary prospectus, copies of which may be obtained by visiting www.flexshares.com. Read the prospectus carefully before you invest.

Foreside Fund Services, LLC, distributor.

An investment in FlexShares is subject to numerous risks, including possible loss of principal. Fund returns may not match the return of the respective indexes. A full description of risks is in the prospectus.

FlexShares Ultra-Short Income Fund (RAVI) is actively managed and does not seek to replicate a specified index. Additionally, the Fund may invest without limitation in the fixed income and debt securities of foreign issuers in both developed and emerging markets. The Fund is at increased credit and default risk, where there is an inability or unwillingness by the issuer of a fixed income security to meet its financial obligations, debt extension risk, where an issuer may exercise its right to pay principal on an obligation later than expected, as well as interest rate/maturity risk, where the value of the Fund's fixed income assets will decline because of rising interest rates. The Fund may also be subject to increased concentration risk as it may invest more than 25% of its assets into the securities of a single developed market. Additionally, the Fund may invest without limitation in mortgage or asset-backed securities, which puts it at increased risk for interest rate/maturity risk, debt extension risk, and prepayment (or call) risk. Also, the Fund is "non-diversified" under the Investment Company Act of 1940, and may invest more of its assets in fewer issuers than diversified funds.